

Allen Academy

**Financial Report
with Supplemental Information
June 30, 2008**

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Independent Auditor's Report

To the Board of Directors
Allen Academy

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allen Academy (the "Academy") as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of Allen Academy's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Allen Academy as of June 30, 2008 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison schedule, as identified in the table of contents, are not required parts of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Directors
Allen Academy

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Allen Academy's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated October 8, 2008 on our consideration of the Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

October 8, 2008

This section of Allen Academy's (the "Academy") annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2008. Please read it in conjunction with the Academy's basic financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Allen Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund and the Debt Service Fund - with all other funds presented in one column as nonmajor funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets (deficit) and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the school, to assess the overall health of the Academy.

The statement of net assets (deficit) and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics, food services, and facilities acquisitions. Unrestricted state aid (foundation allowance revenue) and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by state law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Services, Athletics, and Capital Projects Funds are examples) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets (deficit) and the statement of activities) and governmental funds in a reconciliation.

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Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets (deficit) provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net deficits as of June 30, 2008 and 2007:

TABLE I

	Governmental Activities	
	June 30	
	2008	2007
Assets		
Current and other assets	\$ 3,887,292	\$ 3,556,454
Prepaid other assets	1,405,911	1,460,665
Capital assets	12,205,267	12,260,136
Total assets	17,498,470	17,277,255
Liabilities		
Current liabilities	1,373,317	1,176,067
Long-term liabilities	16,520,000	16,720,000
Total liabilities	17,893,317	17,896,067
Net Assets (Deficit)		
Invested in capital assets - Net of related debt	(3,222,948)	(3,308,325)
Restricted for debt service	2,024,463	1,872,093
Restricted for capital projects	1,790	12,785
Unrestricted	801,848	804,635
Total net assets (deficit)	<u><u>\$ (394,847)</u></u>	<u><u>\$ (618,812)</u></u>

The above analysis focuses on the net assets (deficit) (see Table I). The change in net assets (deficit) (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were a deficit of (\$394,847) at June 30, 2008. Capital assets, net of related debt, totaling a deficit of (\$3,222,948), compare the original cost, less depreciation, of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. The debt will be repaid from General Fund revenue and funds available in the Debt Service Fund as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$801,848, was unrestricted.

Allen Academy

Management's Discussion and Analysis (Continued)

The \$801,848 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Academy as a whole are reported in the statement of activities (see Table 2), which shows the changes in net deficits for fiscal years 2008 and 2007:

TABLE 2

	Governmental Activities	
	Year Ended June 30	
	2008	2007
Revenue		
Program revenue:		
Charges for services	\$ 37,065	\$ 18,809
Federal grants and entitlements	1,085,484	877,855
State categoricals	450,723	610,070
Operating grants	4,850	17,184
General revenue:		
State foundation allowance	6,850,803	6,472,452
Interest on investment earnings	93,900	92,615
Other	64,425	18
Total revenue	8,587,250	8,089,003
Functions/Program Expenses		
Instruction	2,732,433	2,616,761
Support services	3,336,825	3,198,950
Food services	334,341	310,622
Athletics	84,797	83,685
Community services	16,995	9,153
Facilities acquisitions	-	9,383
Interest on long-term debt	1,369,500	1,366,750
Depreciation and amortization (unallocated)	488,394	480,409
Total functions/program expenses	8,363,285	8,075,713
Change in Net Assets (Deficit)	\$ 223,965	\$ 13,290

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Management's Discussion and Analysis (Continued)

As reported in the statement of activities, the cost of all of our governmental activities this year was \$8,363,285. Certain activities were partially funded from those who benefited from the programs (\$37,065) or by other governmental agencies and organizations that subsidized certain programs with grants and contributions (\$1,541,057). We paid for the remaining "public benefit" portion of our governmental activities with \$6,850,803 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The Academy experienced a decrease in net deficit of \$223,965. The key reason for the change in net deficit was the ability to keep expenses in line with revenues.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with state-prescribed available unrestricted resources.

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$2,828,101, which is an increase of \$138,588 from last year. The primary reason for the increase was that once again there was a significant increase in enrollment which allowed debt to be serviced adequately and provided added revenue to fund General Fund expenditures.

In the General Fund, our principal operating fund, the fund balance decreased from \$804,635 to \$801,848. The change is mainly due to maintaining control of expenditures in relation to revenues received.

The General Fund fund balance is available to fund costs related to allowable school operating purposes.

The Debt Service Fund showed a fund balance increase from \$1,872,093 to \$2,024,463. The change is mainly due to a decrease in transfers to the Capital Projects Fund from the Debt Service Fund.

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Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were minimal revisions made to the 2007-2008 General Fund original budget. Budgeted revenues were increased \$119,174 due mainly to an increase in anticipated state aid. Budgeted expenditures were increased \$214,428 to account for the increase in salaries and purchased professional services resulting from the Academy's revised operating plan. The amount of transfers to other funds established in the amended budget was \$1,525,135 and represents support provided by the General Fund to other functions.

Significant variances between the final budget and actual amounts are disclosed in the notes to the financial statements.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the Academy had \$13,611,178 invested in a broad range of capital assets, including land, buildings and additions, site improvements, furniture and equipment, and capitalized full-term certificates of participation (FTCP) issuance costs. This amount represents a net decrease (including additions, disposals, adjustments, and depreciation) of approximately \$110,000, or 1 percent, from last year.

	2008	2007
Land	\$ 140,000	\$ 140,000
Buildings and additions	11,661,523	11,784,086
Site improvements	136,843	118,765
Furniture and equipment	266,901	217,285
Capitalized FTCP issuance costs	1,405,911	1,460,665
Total capital assets	<u>\$ 13,611,178</u>	<u>\$ 13,720,801</u>

This year's additions of \$378,771 include buildings and additions, site improvements, and furniture and equipment. No debt was issued for these additions.

There are capital projects planned for the 2008-2009 fiscal year. We anticipate capital additions will be less than the 2007-2008 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Allen Academy

Management's Discussion and Analysis (Continued)

Debt

At the end of this year, the Academy had \$14,740,000 in full-term certificates of participation and \$1,980,000 in full-term subordinate certificates of participation outstanding. We present more detailed information about long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our appointed administration considers many factors when setting the Academy's 2009 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2009 fiscal year is 25 percent and 75 percent of the February 2008 and September 2008 student counts, respectively. The 2009 budget was adopted in June 2008, based on an estimate of students who will be enrolled in September 2008. Approximately 84 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2009 school year, we anticipate that the fall student count will be slightly more than the estimates used in creating the 2009 budget. Once the final student count and related per pupil funding is validated, state law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent revenue-estimating conference, the State estimates funds will be sufficient to fund the appropriation.

Allen Academy

Statement of Net Assets (Deficit) June 30, 2008

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 336,047
Receivables - Net	1,530,509
Prepaid costs	42,652
Restricted assets (Notes 3 and 12)	1,978,084
Prepaid other assets - Net (Note 6)	1,405,911
Capital assets - Net (Note 5)	<u>12,205,267</u>
Total assets	17,498,470
Liabilities	
Accounts payable	60,778
Due from student activities fund	300
Accrued payroll and other liabilities (Note 7)	784,281
State aid anticipation note (Note 11)	148,000
Deferred revenue (Note 4)	179,958
Long-term liabilities (Note 8):	
Due within one year	200,000
Due in more than one year	<u>16,520,000</u>
Total liabilities	<u>17,893,317</u>
Net Assets (Deficit)	
Investment in capital assets - Net of related debt	(3,222,948)
Restricted:	
Capital Projects Fund	1,790
Debt Service Fund	2,024,463
Unrestricted	<u>801,848</u>
Total net assets (deficit)	<u><u>\$ (394,847)</u></u>

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Statement of Activities Year Ended June 30, 2008

	Program Revenues			Governmental
	Expenses	Charges for Services	Operating Grants/Contributions	Activities
				Net (Expense) Revenue and Changes in Net Assets
Functions/Programs				
Primary government - Governmental activities:				
Instruction	\$ 2,732,433	\$ -	\$ 840,831	\$ (1,891,602)
Support services	3,336,825	18,929	404,593	(2,913,303)
Food services	334,341	6,272	295,633	(32,436)
Athletics	84,797	840	-	(83,957)
Community services	16,995	11,024	-	(5,971)
Interest on long-term debt	1,369,500	-	-	(1,369,500)
Depreciation and amortization (unallocated)	488,394	-	-	(488,394)
Total governmental activities	<u>\$ 8,363,285</u>	<u>\$ 37,065</u>	<u>\$ 1,541,057</u>	(6,785,163)
General revenues:				
State aid not restricted to specific purposes				6,850,803
Interest and investment earnings				93,900
Other				64,425
Total general revenues				<u>7,009,128</u>
Change in Net Assets (Deficit)				223,965
Net Assets (Deficit) - Beginning of year				<u>(618,812)</u>
Net Assets (Deficit) - End of year				<u>\$ (394,847)</u>

Allen Academy

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents (Notes 3 and 12)	\$ 336,047	\$ 1,107,337	\$ 1,790	\$ 1,445,174
Investments (Notes 3 and 12)	-	868,957	-	868,957
Receivables - Net	1,530,509	-	-	1,530,509
Due from other funds	-	48,169	-	48,169
Prepaid costs	42,652	-	-	42,652
Total assets	<u>\$ 1,909,208</u>	<u>\$ 2,024,463</u>	<u>\$ 1,790</u>	<u>\$ 3,935,461</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 60,778	\$ -	\$ -	\$ 60,778
Accrued payroll and other liabilities (Note 7)	670,155	-	-	670,155
State aid anticipation note (Note 11)	148,000	-	-	148,000
Due to other funds	48,169	-	-	48,169
Due to student activities fund	300	-	-	300
Deferred revenue (Note 4)	179,958	-	-	179,958
Total liabilities	1,107,360	-	-	1,107,360
Fund Balances				
Reserved for:				
Debt service	-	2,024,463	-	2,024,463
Capital projects	-	-	1,790	1,790
Prepaid costs	42,652	-	-	42,652
Unreserved - Undesignated - Reported in General Fund	759,196	-	-	759,196
Total fund balances	<u>801,848</u>	<u>2,024,463</u>	<u>1,790</u>	<u>2,828,101</u>
Total liabilities and fund balances	<u>\$ 1,909,208</u>	<u>\$ 2,024,463</u>	<u>\$ 1,790</u>	<u>\$ 3,935,461</u>

Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets (Deficit)
June 30, 2008

Fund Balance - Total governmental funds \$ 2,828,101

Amounts reported for governmental activities in the statement
of net assets (deficit) are different because:

Capital assets used in governmental activities are
not financial resources and are not reported
in the governmental funds:

Cost of capital assets	\$ 15,627,168	
Accumulated depreciation/amortization	<u>(2,015,990)</u>	13,611,178

Long-term liabilities are not due and payable
in the current period and are not reported
in the governmental funds - Full-term
certificates of participation payable (16,720,000)

Accrued interest is not included as a liability in
governmental funds (114,126)

Net Assets (Deficit) - Governmental activities **\$ (394,847)**

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local sources	\$ 99,673	\$ 88,535	\$ 7,182	\$ 195,390
State sources	7,289,985	-	11,541	7,301,526
Federal sources	801,392	-	284,092	1,085,484
Intermediate sources	4,850	-	-	4,850
Total revenue	8,195,900	88,535	302,815	8,587,250
Expenditures				
Current:				
Instruction	2,802,606	-	-	2,802,606
Support services	3,400,278	-	-	3,400,278
Food services	-	-	334,390	334,390
Athletics	-	-	84,797	84,797
Community services	16,995	-	-	16,995
Facilities acquisitions	234,366	-	-	234,366
Debt service:				
Principal	-	195,000	-	195,000
Interest	208,720	1,160,780	-	1,369,500
Capital outlay	-	-	950	950
Other	-	9,780	-	9,780
Total expenditures	6,662,965	1,365,560	420,137	8,448,662
Excess of Revenue Over (Under) Expenditures	1,532,935	(1,277,025)	(117,322)	138,588
Other Financing Sources (Uses)				
Transfers in (Note 9)	-	1,429,395	655,055	2,084,450
Transfers out (Note 9)	(1,535,722)	-	(548,728)	(2,084,450)
Total other financing sources (uses)	(1,535,722)	1,429,395	106,327	-
Net Change in Fund Balances	(2,787)	152,370	(10,995)	138,588
Fund Balances - Beginning of year	804,635	1,872,093	12,785	2,689,513
Fund Balances - End of year	<u>\$ 801,848</u>	<u>\$ 2,024,463</u>	<u>\$ 1,790</u>	<u>\$ 2,828,101</u>

Governmental Funds
Reconciliation of the Statement of Revenue, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2008

Net Change in Fund Balances - Total governmental funds \$ 138,588

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation and amortization:

Depreciation/amortization expense	\$ (488,394)	
Capitalized capital outlay	<u>378,771</u>	(109,623)

Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)

195,000

Change in Net Assets (Deficit) of Governmental Activities **\$ 223,965**

Fiduciary Fund Statement of Fiduciary Assets and Liabilities Year Ended June 30, 2008

	Student Activities <u>Agency Fund</u>
Assets - Due from General Fund	\$ 300
Liabilities - Due to student groups	\$ 300

Note I - Summary of Significant Accounting Policies

The accounting policies of Allen Academy (the "Academy") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

On August 20, 1999, the Academy entered into a five-year contract with the Ferris State University Board of Trustees to charter a public school academy which was extended on June 11, 2008, through June 30, 2015. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Ferris State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy paid the Ferris State University Board of Trustees 3 percent of the state aid foundation allowance as administrative fees. The total administrative fees for the year ended June 30, 2008 paid to the Ferris State University Board of Trustees was approximately \$207,000.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the entity does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Note I - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the Academy-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes and unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Note I - Summary of Significant Accounting Policies (Continued)

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

The Academy reports the following major governmental funds:

The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The Debt Service Fund is used to record transfers from the General Fund and interest revenue and the payments of interest, principal, and other expenditures on long-term debt.

Additionally, the Academy reports the following fund types:

The Capital Projects Fund is used to record long-term debt proceeds or other revenue and disbursement monies specifically designed for acquiring new school sites, buildings, equipment, and for major remodeling. The fund is retained until the purpose for which the fund was created has been accomplished.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditure for specified purposes. The Academy's Special Revenue Funds include the Food Services and Athletic Funds. Any operating deficit generated by these activities is the responsibility of the General Fund.

Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments - Investments include short-term investments with a maturity of greater than three months. Investments are stated at fair value.

Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Interfund balances represent routine cash flow assistance from the General Fund to cover interest expenditures.

All receivables, primarily intergovernmental receivables, are shown net of an allowance for uncollectible amounts. The Academy considers all receivables to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include land, buildings and additions, site improvements, furniture and equipment, and certificates of participation issuance costs, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Buildings and additions, site improvements, furniture and equipment, and certificates of participation issuance costs are depreciated or amortized using the straight-line method over the following useful lives:

Buildings and additions	39 years
Site improvements	15 years
Furniture and equipment	3-6 years
Certificates of participation issuance costs	27-30 years

Long-term Obligations - In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets (deficit). Full-term certificates of participation premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Long-term debt payable is reported net of the applicable premium or discount. Long-term debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize long-term debt premiums and discounts, as well as long-term debt issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and state law for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. During the year, the budget was amended in a legally permissible manner. The Academy adjusted budgeted amounts during the year in response to actual and projected activities.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Academy incurred expenditures in the General Fund, which were in excess of the amounts budgeted, as follows:

	Budget	Actual
General Fund - Current:		
Support services - School administration	\$ 324,840	\$ 371,049
Debt service - Interest	179,065	208,720
Support services - Pupil transportation services	12,000	16,428

Note 3 - Deposits and Investments

State statutes authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

Note 3 - Deposits and Investments (Continued)

The Academy has designated one bank for the deposits of its funds.

The Academy's deposits consist solely of checking and/or savings accounts at local banks and money market funds invested in U.S. Treasury obligations. The Academy has not adopted a formal investment policy. The Academy's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy's deposit policy requires that financial institutions be evaluated and only those with an acceptable risk level for custodial risk are used for the Academy's deposits. At year end, the Academy's deposit balance of \$377,862 had \$277,862 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Academy limits interest rate risk by investing in only U.S. Treasury obligations.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. At year end, the maturities of investments and the credit quality ratings of debt securities are as follows:

Investment	Fair Value	Maturities	Rating	Rating Organization
Bank investment pool	\$ 1,109,127	19 days	Aaa	Moody's
U.S. government agency note	<u>868,957</u>	6 months	Not required	Not required
Total investments	<u><u>\$ 1,978,084</u></u>			

Concentration of Credit Risk - The Academy places no limit on the amount it may invest in any one issuer.

Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Deferred revenue	\$ -	\$ 179,958

Note 5 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions	Balance June 30, 2008
Capital assets not being depreciated -			
Land	\$ 140,000	\$ -	\$ 140,000
Capital assets being depreciated:			
Building and additions	12,656,580	205,466	12,862,046
Site improvements	138,062	28,900	166,962
Furniture and equipment	661,932	144,405	806,337
Subtotal	13,456,574	378,771	13,835,345
Accumulated depreciation:			
Building and building additions	872,494	328,029	1,200,523
Site improvements	19,297	10,822	30,119
Furniture and equipment	444,647	94,789	539,436
Subtotal	1,336,438	433,640	1,770,078
Net capital assets being depreciated	\$ 12,120,136	\$ (54,869)	\$ 12,065,267

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is impractical.

Note 6 - Prepaid Other Asset

Prepaid other asset activity of the Academy's governmental activities was as follows:

	Balance July 1, 2007	Additions	Balance June 30, 2008
Other assets - Certificates of participation issuance costs	\$ 1,651,823	\$ -	\$ 1,651,823
Accumulated amortization	<u>(191,158)</u>	<u>(54,754)</u>	<u>(245,912)</u>
Net amortizable assets	<u>\$ 1,460,665</u>	<u>\$ (54,754)</u>	<u>\$ 1,405,911</u>

Note 7 - Management Company

The Academy entered into a management agreement through June 30, 2008 for a minimum fixed fee of \$400,000 during the year ended June 30, 2004, increasing incrementally over five years to \$650,000 for the year ended June 30, 2008. As compensation in addition to the fixed fee, the Academy agreed to pay a variable fee equal to 6.0 percent of per pupil expenditures, not to exceed the amount paid as the fixed fee.

The Academy incurred management fees totaling \$1,061,048 for the year ended June 30, 2008. At June 30, 2008, accrued expenses include \$193,572 of accrued management fees and approximately \$389,000 for reimbursement of subcontracted employees and other operating costs.

For the year ended June 30, 2008, federal grant expenditures include \$88,204 paid to the management company for services including testing, assessment, curriculum, technical support, professional development, student support, school improvement, parental involvement activities, project supervision, grant administration, and reimbursement of indirect costs.

Effective July 1, 2008, the Academy entered into a management agreement expiring June 30, 2015. Fees under the new management agreement will be based on a fixed fee of \$907,000 for the year ended June 30, 2009, indexed upward in each subsequent fiscal year by an amount equal to the lesser of 3 percent or a percentage based on the Consumer Price Index (CPI).

Note 8 - Long-term Debt

The Academy issues full-term certificates of participation to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. Full-term certificates of participation are direct obligations and pledge a portion of the state revenue of the Academy.

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Reductions	Ending Balance	Due Within One Year
Governmental activities:				
Full-term certificates of participation	\$ 14,915,000	\$ 175,000	\$ 14,740,000	\$ 180,000
Full-term subordinate certificates of participation	<u>2,000,000</u>	<u>20,000</u>	<u>1,980,000</u>	<u>20,000</u>
Total governmental activities	<u>\$ 16,915,000</u>	<u>\$ 195,000</u>	<u>\$ 16,720,000</u>	<u>\$ 200,000</u>

Annual debt service requirements to maturity for the above certificates of participation are as follows:

	Governmental Activities		
	Principal	Interest	Total
2009	\$ 200,000	\$ 1,354,350	\$ 1,554,350
2010	220,000	1,338,850	1,558,850
2011	240,000	1,321,750	1,561,750
2012	260,000	1,303,050	1,563,050
2013	275,000	1,261,300	1,536,300
2014-2017	1,350,000	4,916,675	6,266,675
2018-2022	2,395,000	5,408,775	7,803,775
2023-2027	3,765,000	4,192,250	7,957,250
2028-2032	5,315,000	2,459,600	7,774,600
2033	<u>2,700,000</u>	<u>219,450</u>	<u>2,919,450</u>
Total	<u>\$ 16,720,000</u>	<u>\$ 23,776,050</u>	<u>\$ 40,496,050</u>

Note 8 - Long-term Debt (Continued)**Governmental Activities**

Full-term certificates of participation (FTCP) and full-term subordinate certificates of participation (FTSCP) consist of the following:

\$1,215,000 FTCP due in annual installments of \$120,000 to \$190,000 through 2015, interest rate of 7 percent	\$ 1,095,000
\$2,140,000 FTCP due in annual installments of \$205,000 to \$340,000 through 2023, interest rate of 7.5 percent	2,140,000
\$6,145,000 FTCP due in annual installments of \$365,000 to \$1,590,000 through 2033, interest rate of 8 percent	6,145,000
\$3,500,000 FTCP due in annual installments of \$220,000 to \$765,000 from year 2024 through 2033, interest rate of 8 percent	3,500,000
\$1,915,000 FTCP due in annual installments of \$55,000 to \$370,000 through 2023, interest rate of 9 percent	1,860,000
\$2,000,000 FTSCP due in annual installments of \$20,000 to \$345,000 through 2033, interest rate of 9 percent	<u>1,980,000</u>
Total	<u>\$ 16,720,000</u>

Note 9 - Interfund Transfers

	Transfers Out		
	Other		
	Nonmajor		
	Governmental		
	General Fund	Funds	Total
Transfers in:			
Debt Service Fund	\$ 880,667	\$ 548,728	\$ 1,429,395
Other nonmajor governmental funds	<u>655,055</u>	<u>-</u>	<u>655,055</u>
Total	<u>\$ 1,535,722</u>	<u>\$ 548,728</u>	<u>\$ 2,084,450</u>

Transfers provided funding for capital projects, debt services, and subsidized operations in the Food Services and Athletics Funds.

Note 10 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company is covered by insurance held by the management company in Note 7. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of the insurance coverage since inception.

Note 11 - State Aid Anticipation Note

During the fiscal year, the Academy borrowed \$814,000 in a state aid anticipation note. The note bore interest at a floating rate equal to 75 percent of the prime rate, resulting in an effective rate of 3.75 percent as of June 30, 2008. The note was paid in full on August 29, 2008.

Note 12 - Restricted Assets

Restricted assets are composed of cash, cash equivalents, and investments which represent unspent full-term certificate of participation proceeds and related interest, which can be used for capital expenditures or debt service payments.

Note 13 - Subsequent Events

Subsequent to year end, the Academy borrowed \$975,000 at a variable annual interest rate equal to 75 percent of the prime rate, adjusted monthly, on a state aid anticipation note. The note, plus interest, is due on August 30, 2009.

Required Supplemental Information

Allen Academy

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
Local sources	\$ 19,499	\$ 15,020	\$ 99,673	\$ 84,653
State sources	7,469,997	7,411,436	7,289,985	(121,451)
Federal sources	679,499	861,538	801,392	(60,146)
Intermediate sources	4,700	4,875	4,850	(25)
Total revenue	8,173,695	8,292,869	8,195,900	(96,969)
Expenditures - Current				
Instruction:				
Basic programs	2,234,040	2,099,376	1,999,965	(99,411)
Added needs	695,056	900,129	802,641	(97,488)
Support services:				
Pupil	350,535	370,493	362,644	(7,849)
Instructional staff	562,878	618,139	621,134	2,995
General administration	709,675	759,695	726,828	(32,867)
School administration	321,172	324,840	371,049	46,209
Business services	333,183	357,119	347,710	(9,409)
Operation and maintenance	838,723	790,856	770,868	(19,988)
Pupil transportation services	32,000	12,000	16,428	4,428
Central	190,020	179,530	183,617	4,087
Community services	17,867	17,779	16,995	(784)
Facilities acquisition	60,000	220,000	234,366	14,366
Debt service - Interest	269,444	179,065	208,720	29,655
Total expenditures	6,614,593	6,829,021	6,662,965	(166,056)
Other Financing Uses - Transfers out	(1,550,743)	(1,525,135)	(1,535,722)	(10,587)
Net Change in Fund Balance	8,359	(61,287)	(2,787)	58,500
Fund Balance - July 1, 2007	867,219	804,635	804,635	-
Fund Balance - June 30, 2008	<u>\$ 875,578</u>	<u>\$ 743,348</u>	<u>\$ 801,848</u>	<u>\$ 58,500</u>

Other Supplemental Information

Allen Academy

Other Supplemental Information Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Capital Projects Fund	<u>Special Revenue Funds</u>		
		Food Services Fund	Athletics Fund	Total
Assets - Cash	<u>\$ 1,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,790</u>
Fund Balances - Reserved - Capital Projects Fund	<u>\$ 1,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,790</u>

Allen Academy

Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds Year Ended June 30, 2008

	Capital Projects Fund	Special Revenue Funds		
		Food Fund Services	Athletics Fund	Total
Revenue				
Local sources	\$ 70	\$ 6,272	\$ 840	\$ 7,182
State sources	-	11,541	-	11,541
Federal sources	-	284,092	-	284,092
Total revenue	70	301,905	840	302,815
Expenditures				
Current:				
Food services	-	334,390	-	334,390
Athletics	-	-	84,797	84,797
Capital outlay	-	-	950	950
Total expenditures	-	334,390	85,747	420,137
Excess of Revenue Over (Under) Expenditures	70	(32,485)	(84,907)	(117,322)
Other Financing Sources (Uses)				
Transfers in	537,663	32,485	84,907	655,055
Transfers out	(548,728)	-	-	(548,728)
Total other financing sources (uses)	(11,065)	32,485	84,907	106,327
Net Change in Fund Balances	(10,995)	-	-	(10,995)
Fund Balances - Beginning of year	12,785	-	-	12,785
Fund Balances - End of year	<u>\$ 1,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,790</u>

Allen Academy

Other Supplemental Information Statement of Full-term Certificates of Participation and Full-term Subordinate Certificates of Participation Indebtedness Year Ended June 30, 2008

June 30	2003 Series Principal	2003 Series Principal	2003 Series Principal	2004 Series A Principal	2004 Series B Principal	2005 Series C Principal
2009	\$ 125,000	\$ -	\$ -	\$ -	\$ 55,000	\$ 20,000
2010	135,000	-	-	-	60,000	25,000
2011	145,000	-	-	-	70,000	25,000
2012	155,000	-	-	-	75,000	30,000
2013	165,000	-	-	-	80,000	30,000
2014	180,000	-	-	-	90,000	35,000
2015	190,000	-	-	-	95,000	35,000
2016	-	205,000	-	-	105,000	40,000
2017	-	220,000	-	-	115,000	40,000
2018	-	235,000	-	-	125,000	45,000
2019	-	255,000	-	-	135,000	50,000
2020	-	275,000	-	-	150,000	55,000
2021	-	295,000	-	-	160,000	60,000
2022	-	315,000	-	-	175,000	65,000
2023	-	340,000	-	-	370,000	70,000
2024	-	-	365,000	220,000	-	80,000
2025	-	-	395,000	235,000	-	85,000
2026	-	-	425,000	255,000	-	90,000
2027	-	-	460,000	275,000	-	100,000
2028	-	-	495,000	300,000	-	110,000
2029	-	-	535,000	320,000	-	120,000
2030	-	-	580,000	350,000	-	130,000
2031	-	-	625,000	375,000	-	140,000
2032	-	-	675,000	405,000	-	155,000
2033	-	-	1,590,000	765,000	-	345,000
Total	<u>\$ 1,095,000</u>	<u>\$ 2,140,000</u>	<u>\$ 6,145,000</u>	<u>\$ 3,500,000</u>	<u>\$ 1,860,000</u>	<u>\$ 1,980,000</u>
Principal payments due	June 1	June 1	June 1	June 1	June 1	June 1
Interest payments due	June 1/Dec 1	June 1/Dec 1	June 1/Dec 1	June 1/Dec 1	June 1/Dec 1	June 1/Dec 1
Interest rate	7.0%	7.5%	8.0%	8.0%	9.0%	9.0%
Original issue	<u>\$ 1,215,000</u>	<u>\$ 2,140,000</u>	<u>\$ 6,145,000</u>	<u>\$ 3,500,000</u>	<u>\$ 1,915,000</u>	<u>\$ 2,000,000</u>